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FAR EAST

1. Hoa Binh withdrawal not indicative of general emergency in Indochina:

25X1A [redacted] The recent French withdrawal from Hoa Binh is not considered by the American Legation in Saigon as a symptom of a general deterioration of the situation in Indochina. The military as-

sistance chief, General Brink, reiterates his estimate of early February that the military picture in the Tonkin delta is not alarming and that this area can be defended, albeit with some difficulty.

Comment: The chief effect of the withdrawal is its adverse psychological impact on the "fence-sitting" Vietnamese population, an impact considerably aggravated by previous extravagant French claims of victories around Hoa Binh.

2. Burmese insurgent negotiations for an alliance collapse:

25X1 25X1A [redacted] [redacted] negotiations for an alliance between the Karens, the two Communist parties and the pro-Communist Peoples Volunteer Organization have collapsed. However, as a

result of the temporary rapprochement, many Karens have joined the Communists.

Comment: The Karens are reported to have demanded assurances that they would be permitted to establish a large autonomous state after the defeat of the Burmese Government. This is the most probable barrier to an agreement.

Sizeable aid from Peiping to the Communist insurgents in Burma is probably dependent on their ability to form a strong coalition. Burmese Communist leaders, therefore, may be expected soon to make further efforts to settle the differences among themselves and to entice the Karens, whose supply situation is desperate, to join forces.

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3. Burmese Commander outlines plan for evacuation of Chinese Nationalists:

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The Burmese Commander in Chief, Ne Win, on 29 February amplified to the American Military Attache an earlier suggestion for solution of the problem of the Chinese Nationalists in Burma. Ne Win's plan calls for the surrender of the Nationalists and their repatriation to Formosa by airlift as far as Rangoon, and from there by sea.

Ne Win admits that his government has not approved the project but he wants to know, for planning purposes, whether the United States will assist in any airlift of the Nationalists and if the Taipei government would help defray expenses.

The attache doubts that the Burmese Government will accept the proposal.

Comment: Burmese leaders have considered such a project in the past but have been unwilling to approve because of their fear of Chinese Communist reaction.

Although Ne Win believes he can influence the government to accept, any decision in the matter would be dependent on the attitude of Socialist party leaders, who are reportedly planning to invite Communist China to eliminate Li Mi's forces.

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5. Comment on plans for new Indonesian cabinet:

President Sukarno's call on Indonesia's two major parties, the Masjumi (Moslem) and National parties, to form a cabinet indicates the continuation of a mildly pro-Western policy and commitment to the Mutual Security agreement--pending its consideration by Parliament.

The former coalition cabinet, also based upon a Masjumi-National combination, was not repudiated by Parliament but fell because of internal disagreement on the Mutual Security issue.

NEAR EAST - AFRICA

6. Iran reportedly concludes oil contracts with German and Italian firms:

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The American Embassy in Tehran reports that the Iranian Government has concluded two contracts for the sale of oil. A contract with the Italian Middle East Petroleum Company involves an unspecified amount of oil; another, with a German company, provides for the exchange of \$300,000 worth of Iranian oil for pipe for the Kermanshah water system.

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Comment: An earlier report from the Embassy in Tehran stated that the Italian-Iranian negotiations, involving 500,000 tons of oil, had not been concluded and presumably were awaiting the outcome of attempts of the International Bank to reach an interim settlement.

Several West German firms now have representatives in Iran attempting to revive Iranian-German trade relations and it is quite possible that any one of these could be negotiating with the Iranian Oil Company. Various independent operators, including Americans, have been negotiating intermittently for Iranian oil, but so far as is known none have concluded any agreement.

7. Comment on Iranian Government's Internal Security Decree:

A decree of the Iranian Council of Ministers assigning direct responsibility for internal security to the Minister of Interior appears to be an attempt by the government to extend its control over the Iranian armed forces which constitutionally owe allegiance to the Shah and are under his direct control. The decree is almost certain to arouse opposition from both the Shah and the army.

A previous National Front attempt to win control over the Air Force resulted in a purge of National Front supporters by the Army Chief of Staff, backed by the Shah. On the basis of the decree, any attempt by the Shah to use the army without approval of the Minister of the Interior might result in a showdown between the government and the army.

8. Comment on new Egyptian Prime Minister:

Ahmed Nagib Hilali Pasha's appointment as Prime Minister to succeed Ali Maher foreshadows a new and stronger line against the Wafd party and against internal Egyptian corruption.

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Recent reports have emphasized King Farouk's impatience over Ali Maher's unwillingness to prosecute Wafd members who were derelict in their duty or who were implicated in the Cairo riots of 26 January. The King also wished for speedy opening of talks with Britain.

Hilali Pasha, a respected lawyer and politician, and a friend of the West, is noted for his opposition to corruption within the government. He has strongly opposed some of the top Wafd leaders at whose instigation he was expelled from the party in November 1951. Hence, there is little chance that the Wafd would fully cooperate with him. A suspension of Parliament, if resorted to, might lend a calmer atmosphere for negotiations with the British but would in no way remove or lessen the opposition.

On 28 February Hilali Pasha, in setting forth his views on the situation to an American Embassy official, emphasized that the elimination of corruption and prosecution of guilty Wafd leaders must precede a solution of the Anglo-Egyptian problem. His statements on the minimum Egyptian requirements for a solution, however, differed in no way from those voiced by his predecessor. He insisted on evacuation of the Canal zone and recognition of the Sudan formula, and stated that even under Middle East Command proposals the presence of foreign troops on Egyptian soil would not be acceptable. Hilali, however, believes that the employment of foreign technicians in the Canal zone could be continued.

While the new Prime Minister may be expected to make strenuous efforts to maintain a stable pro-Western regime, his continuation in power will depend on a settlement with Britain acceptable to the Egyptian public.

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